

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

-v-

VALI MANAGEMENT PARTNERS dba AVALON FA
LTD, NATHAN FAYYER and SERGEY
PUSTELNIK, aka SERGE PUSTELNIK,

Defendants.
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: 17 Civ. 1789 (DLC)
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: Initial Instruction
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DENISE COTE, District Judge:

I will now give you brief, initial instructions about the law that applies in this case. At the conclusion of the trial, I will give you detailed instructions on the law.

The plaintiff in this case is the Securities and Exchange Commission, or the SEC. The SEC is an agency of the federal government that regulates the securities industry and enforces the federal securities laws by bringing civil lawsuits.

The SEC filed this civil lawsuit against five defendants. Two of those defendants, Samuel Lek and Lek Securities Corporation, have reached agreements with the SEC to resolve the claims against them. The remaining three defendants, Avalon FA Ltd, Nathan Fayer, and Sergey Pustelnik, are on trial before you.

The SEC's lawsuit against the three defendants on trial asserts that each of the defendants has violated two federal securities laws. The two federal laws are the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws prohibit manipulative practices that distort the prices of securities traded in U.S. securities markets.

The securities at issue in this case are stocks and stock options. A stock is an investment that represents an ownership share in a company. A stock option is a contract that allows its holder to buy or sell a stock at a specific price within a specific period of time.

The prices of securities such as stocks and stock options are supposed to reflect legitimate trading activity in the market, meaning that the natural interplay of supply and demand should determine the prices of securities. The SEC asserts that the three defendants distorted the prices of these securities by engaging in market manipulation.

Market manipulation is the use of manipulative practices that are intended to mislead other investors by sending false pricing signals to the market or by creating a false impression of market activity. The securities laws are designed to prevent any manipulative practices that undermine the function of a free securities market. A fundamental goal of the federal securities laws is transparency. These laws are designed to prevent

practices that distort estimates of the underlying economic value of the securities that are being traded.

The SEC has brought three sets of claims in this civil case. First, the SEC claims that each of the defendants engaged in two trading strategies that the SEC contends were manipulative: the layering strategy and the cross-market strategy. The SEC contends that each of these strategies were intended to send false pricing signals to the market or to create a false impression of market activity and thereby mislead investors as to how other market participants valued a security. There will be evidence offered at trial to explain to you what a layering strategy and a cross-market strategy involve. There is no expectation that you, who have been selected today as jurors, already understand what those terms mean or what those strategies are.

Second, the SEC claims that the two individual defendants -- Nathan Fayer and Sergey Pustelnik -- aided and abetted others who were engaged in market manipulation. In these claims, the SEC asserts that each of these two defendants knowingly or recklessly provided substantial assistance to another person engaged in market manipulation.

Third, the SEC has brought claims alleging that each of the three defendants is also liable because they exercised control over others who were engaged in market manipulation.

Each of the defendants has denied each of the claims brought by the SEC. The burden is on the SEC at this trial to prove that a defendant has violated the securities laws in the way the SEC claims. You will be required to make a separate determination as to each defendant on each claim brought by the SEC against that defendant. Again, I will give you detailed instructions as to the law at the conclusion of this trial.